

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2020/2021

BAC 4644 – ADVANCED TAXATION

(All sections / Groups)

6 MARCH 2021
9.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 11 pages excluding the cover page with 5 (five) Questions only.
2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please print all your answers in the Answer Booklet provided.

QUESTION 1

GoodInvest Unit Trust is a resident unit trust in Malaysia. It has been established for the purpose of inviting public to invest in its units. The relevant information related to the company for the year ended 31 December 2020 is as follows:

	Notes:	RM	RM
Income:			
Rental income		1,440,000	
Advanced rental income		240,000	
Gross interest	1	300,500	
Gross dividend	2	122,000	
Gains from disposal of fixed assets		180,000	
Gains from foreign exchange gains (unrealized)		76,000	
Gains from investment (realized)		132,000	
			2,490,500
Expenses:			
Remuneration	3	485,000	
Employees' provident funds		92,150	
Professional fees	4	205,500	
Office rental		180,000	
Insurance		40,800	
Share registration		146,000	
Depreciation		129,000	
Maintenance of register of units holders		170,000	
Miscellaneous expenses	5	367,000	(1,815,450)
Net profit before taxation			675,050

Notes to accounts:

1. Gross interest comprise of the following:

	RM
Interest received from bonds issued by Pengurusan Danaharta Nasional	25,000
Interest received from project invested in Brunei	120,000
Interest received from project invested in Johor, Malaysia	110,500
Interest received from convertible loan stocks	45,000
	<u>300,500</u>

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2. Gross dividend consists of the following:

	RM
Dividend received from Singapore	80,000
Dividend received from Malaysia (single-tier)	42,000
	<u>122,000</u>

3. Remuneration expenses include the payment for the manager's remuneration and trustees' remuneration amounting to RM66,000 and RM192,000.

4. Professional fees comprise of the following:

	RM
Legal fees	65,000
Audit and accounting fees	97,000
Tax agent fees	43,500
	<u>205,500</u>

5. Miscellaneous expenses consist of the following:

	RM
Quit rent and assessment for the rented property	74,400
Insurance premium for the rented property	102,000
Repairs and maintenance for the rented property	106,000
Security charge for the rented property	33,600
Maintenance fees for the rented property	36,000
Interest expense for the interest income received from convertible loans	15,000
	<u>367,000</u>

Additional information:

GoodInvest Unit Trust acquired shop lots building in Damansara, Kuala Lumpur on 12 February 2020 for RM2.35 million. The building was then renovated to be office building. The building was rented out since 1 September 2020 and included in the gross rental income. The purchase price includes the following costs:

	RM
Central air conditioning system	268,000
Fire protection devices	284,000
Alteration of shop lots for the purpose of installation of central air conditional system and fire protection devices	146,000
	<u>698,000</u>

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Required:

Compute the chargeable income of GoodInvest Unit Trust for the year of assessment 2020.

Note: Show all workings and round up all figures.

[Total: 20 marks]

QUESTION 2

- a) Kerjasama Cooperative Society (KCS) was registered as a cooperative society on 1 January 2011 with members' fund of RM200,000. The following information has been extracted from the society's account.

As at beginning of the year:	2017	2018	2019	2020
Balances of members' fund (RM)	683,000	759,000	800,800	829,000

Year ended 31 December:	2017	2018	2019	2020
Audited net profit (RM)	345,000	520,800	610,600	688,800
Amount transferred to statutory reserve (RM)	101,000	124,230	152,803	187,948
Amount transfer to a co-operative educational fund (RM)	56,000	58,240	60,570	61,781
Capital allowance (RM)	95,000	132,000	165,800	216,000

Required:

- (i) **Compute the chargeable income of KCS for the year of assessment 2017 till 2020.** (12 marks)
- (ii) **Illustrate the special deduction for cooperative society under section 65A(a) Income Tax Act 1967 (amended).** (4 marks)

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- b) Daily's Confectionary Sdn. Bhd. is a manufacturer of taxable goods. The company sold taxable goods to the following places on 11 December 2020:

	Sales value RM
Retail Store in Indonesia	150,000
KK Mart in Penang	95,000

Assume that the sales tax rate is 5%.

Required:

- (i) **Compute the amount of sales tax payable (if any) in respect of each of the above Transaction .** (2 marks)
- (ii) **State when the sales tax is due for payment to the Royal Malaysian Customs Department.** (2 marks)

[Total: 20 marks]

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QUESTION 3

JF Sdn. Bhd (JFSB) is a company whose main activity is holding of investments. It prepares its account to 30 April annually. The profit and loss for the year ended 30 April 2020 is as follows:

	Note	RM'000	RM'000
Gross dividends	1		900,000
Interest	2		400,000
Rent (a unit of 5-storey-shop house)	3		120,000
Ad hoc fees for assisting to recommend customers to a third party company			20,000
Gain on sale of investment	4		30,000
Loss on sales of quoted securities			(60,000)
Commission fee received			40,000
			1,450,000
Less:			
Directors' fees		100,000	
Salaries and allowances		500,000	
Audit fees		60,000	
Secretarial fees		8,000	
Repair and maintenance (for shop house)		70,000	
Quit rent and assessment (for shop house)		3,000	
Accounting fees		6,000	
Postage and stationery		1,000	
Interest expense	5	250,000	
Brokerage for sale of investment		16,000	
Commission for sale of commercial land		19,000	
Travelling expense		14,000	
Approved donation		10,000	
Utility expense		55,000	
Entertainment expense		22,000	1,134,000
Net profit			316,000

Notes:

1.	Gross dividends were derived from:	RM
	Malaysian dividends (single-tier)	400,000
	Foreign dividends	200,000
	A Malaysian subsidiary (dividend from exempt income account)	300,000
	Total	900,000

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2.	Interest income was derived from:	RM
	An overseas subsidiary	235,000
	Non-convertible bonds issued by a company listed on Bursa Malaysia	100,000
	Fixed deposit from Maybank Bhd	65,000
	Total	400,000

3. JF collects rentals from a 5-storey shop house without providing management services to the tenants.

4.	Gain on sale of investment	RM
	Sale proceeds	100,000
	Cost of investment	(70,000)
	Total	30,000

5. Interest expense of RM90,000 was incurred on loan being used as the working capital in a Malaysian subsidiary and the remaining RM160,000 was incurred on loan to acquire shares from Bursa Malaysia

Required:

- i) By referring to s60F of the Act, determine whether JFSB. is an investment holding company. (4 marks)
- ii) Compute the chargeable income of JFSB for the year of assessment 2020.

Note: Show all workings. Round up all figures.

(16 marks)

[Total: 20 marks]

QUESTION 4

Leisure Computer Manufacturing Sdn. Bhd. (LCM) is a tax-resident company in Malaysia which manufactures computers components since 2012. The company closes its accounts to 31 December every year. LCM intends to take up the following transactions in the year of assessment 2020 for the benefits of the company:

- a) Acquisition of a new production machine (heavy machinery):

The purchase of the new machine is required in order to meet the customers' demand. The cost of the machine is RM920,000. Due to the high cost incurred, LCM plans to obtain loan to finance 100% of the acquisition either through hire purchase or lease. The first installment will commence on 1 July 2020 with monthly installment of RM8,500 (excluding interest of RM340).

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b) Disposal of a production machine (heavy machinery):

LCM plans to sell its secondhand production machine that was acquired in February 2019 at RM180,000. The machine is not producing the quantities of computer keyboards as expected. The machine is expected to be disposed at RM100,000. LCM had already claimed capital allowances for this machine for the year of assessment 2019.

c) Expand business in trading computer components:

All this while, LCM focuses on manufacturing computer components to be sold to the suppliers instead of directly to the customers. Therefore, LCM intends to expand its business to sell the components directly to customers by opening five computers shops in year 2020 and it expects to get high income from this new business.

d) LCM is currently looking for new investment. The company has identified YTL Sdn. Bhd. (YTL) as its target of investment. The negotiated price for LCM to acquire YTL is RM1 million. The trade debtors to be taken over by LCM amounted to RM200,000.

Required:

Make recommendations to LCM from tax perspective for the followings:

i) **Acquisition of a new electronic production machinery.**

Recommend to LCM either to acquire the machine through hire purchase or lease. Assume that LCM's adjusted income for the year of assessment 2020 is RM860,000.

(6 marks)

ii) **Disposal of production machine.**

Recommend to LCM whether the company should dispose production machine in the year of assessment 2020.

(6 marks)

iii) **Tax treatment of a new business income.**

Evaluate whether LCM should treat the existing business and new business as a single or separate source.

(4 marks)

iv) **Discuss the possible tax planning/ideas with regards to the trade debtors to be taken over from YTL at the time of acquisition by LCM.**

(4 marks)

Note: Justify your answers by showing all necessary calculations.

[Total: 20 marks]

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QUESTION 5

- a) Alex, a Malaysian, worked as a factory manager in Klang, Selangor. Unfortunately, he tested positive for Covid-19 and passed away on 31 October 2020. According to his will, his estate will be managed by Andy, his brother, who is a Malaysian resident. The estate's income for the year of assessment 2020 is as follows:

Café business	RM
Adjusted income	98,000
Frozen food trading business	
Net profit before tax	100,000
Depreciation	5,000
Capital allowance	10,000
Homestay business	
Adjusted loss	24,000
Rental received from residential house (gross) per annum	12,000
Quit rent and assessment (for residential house)	250
Fire insurance (for residential house)	1,050
Repair and maintenance (for residential house)	2,000
Interest income from fixed deposit placement in Ambank Bhd. (paid on 1 July 2020)	200
Dividend income from investment in companies listed in Bursa Malaysia (single – tier; paid on 30.11.2020)	1,000

According to Alex's will, the following payment will be made by the executor:

- An annuity of RM5,000 to Alex's mother.
- An annuity of RM10,000 to Alex's wife, who is a full-time housewife.
- A distribution of RM15,000 to Jennifer, Alex's only daughter. Jennifer, aged 19 in 2020, is a full-time student in a local university.

Alex's spending in year 2020 before he passed away is as follows:

- RM10,000 medical fees for his parents.
- RM5,000 pocket money for his wife's parents.
- RM4,000 medical insurance premium for himself.

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Required:**Compute the following for the year of assessment 2020:**

- i) **Chargeable income of Alex (to the date of his death) and executor.** (13 marks)
- ii) **Total income of Alex's mother, Alex's wife and Alex's daughter, Jennifer.** (4 marks)

Note: You should indicate by the use of the word 'nil' for any item referred to in the question for which no adjusting entry needs to be made (in the column which belongs to either deceased person or the executor) correctly in the tax computation. Round up all figures.

- b) Assumed Andy has never been appointed as an executor prior to Alex's demise. He plans to distribute all of the properties of deceased's estate to the beneficiaries before paying the tax. Discuss whether his plan to distribute all of the properties of deceased's estate to the beneficiaries before tax payment is an appropriate decision. (3 marks)

[Total: 20 marks]**Continued...**

Appendix

- Reliefs**

	RM
Personal relief	9,000
Disabled taxpayer (additional relief)	6,000
Spouse relief	4,000
Disabled spouse relief (additional relief)	3,500
Medical expenses for parents	5,000
Parental care	1,500 per parent
Medical expenses for serious diseases (including medical examination expenses up to RM500)	6,000
Basic supporting equipment for disabled taxpayer, spouse, children, or parents	6,000
Child relief (below 18 years old)	
- Each	2,000
- Disabled	6,000
Child relief (over 18 years old and studying in higher learning institutions)	
- Each	8,000
- Disabled	14,000
Amount deposited into SSPN for child	8,000
Life insurance premium	3,000
EPF contributions	4,000
Premium on deferred annuity contract and private retirement scheme	3,000
Premium on medical/education insurance	3,000
Employee's contribution to SOCSO scheme	250
Education fees paid by taxpayer for his own self-improvement	7,000
Lifestyle expenses	2,500
Breastfeeding equipment	1,000
Fees paid to childcare centre and kindergarten	1,000

- Rebates**

Rebates	RM
Chargeable income <= RM35,000	
Individual	400
Additional relief when wife/husband relief is claimed	400

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- **Rates of Capital Allowances**

	Motor Vehicles/ Heavy Machinery	Plant & Machinery (general)	Office Equipment, Furniture & Fittings, Others	Industrial Building
Initial allowance	20%	20%	20%	10%
Annual allowance	20%	14%	10%	3%

End of Paper